

ORIGINAL



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Letter of Understanding
April 18, 2008

<W-02824A-07-0388>

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ICR Water Users Association (ICR) and Talking Rock Golf Club, LLC (TRGC) have agreed to work in good-faith towards the prompt negotiation and execution of special contract ("Special Contract") that would govern the parties' prospective relationship and amend and largely supersede all other agreements between the parties. The parties intend to negotiate this contract and seek first the support of ICR's membership and then the Arizona Corporation Commission (ACC). This Letter of Understanding ("LOU") is not intended to be a binding agreement upon the parties. The parties instead intend to negotiate and seek ACC approval of the Special Contract that incorporates the terms and conditions set forth in this LOU.

The parties agree in principle that the final Special Contract, will provide for the following terms and conditions:

- **WELL AND OTHER FACILITIES TRANSFERS:** Two wells, Well No. 1 and Well No. 2, will be transferred to ICR. Well No. 2 will be transferred upon execution of this LOU. Well No. 1 will be transferred following final ACC approval of a Special Contract on terms and conditions mutually acceptable to the parties.
 - TRGC will also agree to pay for the actual costs of purchasing and installing a new pump replacement for Well No. 2, up to a maximum cost of \$50,000. TRGC will provide a 12 month warranty on the new pump.
 - All pending asset transfers to ICR shall be completed within a reasonable period of time following execution of the supply agreement, and ICR shall have discretion to characterize all future conveyances as either AIAC or CIAC.
 - The maximum allowable average air production in Well No. 2, in percent of unit volume of water produced, shall not exceed a mutually agreeable level in light of applicable engineering and regulatory standards and if the maximum allowable average air production exceeds that mutually agreeable level, then TRGC agrees to take such actions as are necessary to reduce the maximum allowable average air production below such level at TRGC's sole cost and expense.

Arizona Corporation Commission

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AZ CORP COMMISSION
DOCKET CONTROL

DELIVERY: TRGC shall pay a delivery charge as follows:

A fixed annual System Reservation Charge to be paid for Ten (10) years as follows:

- Year One: \$50,000
 - Year Two \$50,000
 - Year Three \$50,000
 - Year Four \$40,000
 - Year Five \$40,000
 - Year Six \$30,000
 - Year Seven \$30,000
 - Year Eight \$20,000
 - Year Nine \$20,000
 - Year Ten \$10,000
- The System Reservation Charge for Year One shall be paid upon issuance of final ACC approval.
- A commodity charge paid per acre foot for any water delivered through ICR's system to the golf course for irrigation purposes, or to the Talking Rock development for construction water to be used by TRGC and/or any of its affiliates.
 - The commodity charge shall be calculated using a mutually agreeable methodology for determining TRGC's actual pro rata share of the pumping, treatment and other well and delivery related operating costs, plus an appropriate reserve margin.
 - In order to fairly and accurately set rates in ICR's pending rate case, the commodity charge for Year One will be set at a level that will generate \$125,000 of commodity charges. Thereafter, the commodity charge shall be calculated in a manner that ensures that TRGC is responsible for no more and no less than its proportionate share of the subject operating costs, plus an appropriate reserve margin.
 - ❖ The "subject" operating costs will be similar to those costs currently shared under the parties' existing agreements, with the notable addition of TRGC also paying a pro rata share of treatment costs and depreciation expense.
 - **WATER SUPPLY:** TRGC shall be entitled to a maximum of 525 acre-feet of water per year under the Special Contract, but shall not be required to purchase any minimum amount of water under the agreement. The System Reservation Charge shall apply regardless of the amount of water delivered by ICR during a year in which the charge applies.
 - TRGC shall be entitled to connect any additional well (wells other than Well No. 1, 2 or 3) and/or additional transmission facilities to the ICR Talking Rock system but only upon prior written consent of ICR. ICR shall provide such consent provided that such new well will meet new source approval


requirements applicable to ICR's use of that well, and provided that any facilities meet all applicable engineering standards and permitting requirements, and do not otherwise unreasonably interfere with ICR's operations.


- **WATER USE:** ICR will continue to only use water from the wells transferred by TRGC and its affiliates to serve its customers on its Talking Rock water system and for purposes of the parties' supply agreement.
 - Residential use of water pumped from the three Talking Rock wells shall have priority over all other use classifications; provided, however, that after satisfying residential reasonable demand, ICR will make any and all remaining production capacity available under the supply agreement up to a maximum of 525 acre-feet per year.
 - The parties will work together to ensure that other builders, developers and construction water users in the Talking Rock development obtain water from ICR's system (to the extent such water is reasonably available) in accordance with ICR's tariff of rates and changes.
 - TRGC will continue to use reasonable and necessary measures to maximize the use of reclaimed water for irrigation purposes.
 - TRGC shall complete construction of the additional planned storage pond within a reasonable timeframe after approval of the Special Contract.
- **TERM:** The supply contract shall have a term equal to 35 years.
- **FINANCIAL ASSISTANCE:** In order to help defray ICR's costs to negotiate and obtain approval of a Special Contract, upon execution of a supply agreement, TRGC will pay ICR \$30,000, and upon issuance of final ACC approval of the Special Contract, TRGC shall pay ICR an additional \$50,000.

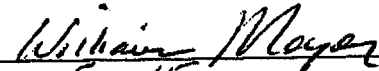
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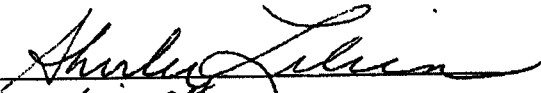
IN WITNESS WHEREOF, the parties hereto have caused this Letter of Understanding to be executed as of the day and year first above written.

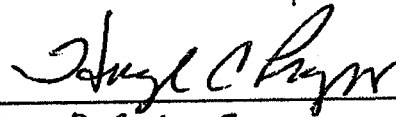
ICR WATER USERS ASSOCIATION

By , Earl Cummings
Its President

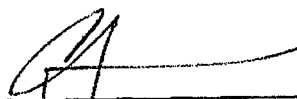
By 
Its VICE PRESIDENT

By 
Its Sec / Treasurer

By 
Its director

By 
Its DIRECTOR

TALKING ROCK GOLF CLUB, LLC

By: 
Its: Manager